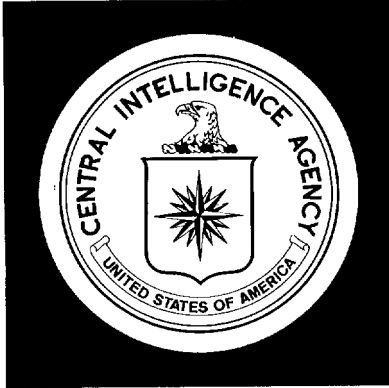


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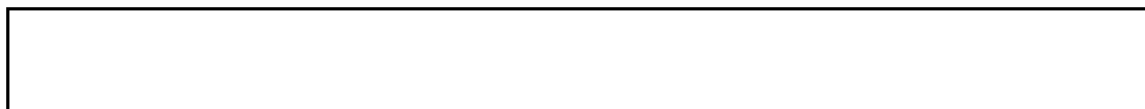
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EUROPEAN COMMUNITIES: The EC finance ministers will renew attempts to find common ground on progress toward monetary union and anti-inflationary measures when they meet on 28 June, but member countries remain sharply divided on these issues.

The ministers will discuss a Commission proposal calling for member countries to allocate 20 percent of their monetary reserves to a common pool to be administered by the central bank governors to help maintain the narrow European currency band. The West Germans have proposed that this step be delayed for two years because of the problems encountered in maintaining the EC currency band, the lack of progress in harmonizing fiscal and monetary policies, and the severe inflationary pressures in the Community.

Noting that the rate of inflation in the Community is currently running at twice the target rate of four percent set last year, the Commission is again urging the ministers to take strong actions to stem the inflationary pressures being aggravated by the Community's rapid economic expansion. The fiscal and monetary measures proposed by the Commission last January have been largely ignored by all the member countries. The Commission, except Germany, now recommends that the 20-percent reduction in internal duties between the original six members and three new members, scheduled for January 1974, be implemented next month, with government supervision to ensure that tariff reductions are fully passed on in lower prices.

Despite the need for rapid agreement on anti-inflationary measures, it is unlikely that a consensus resulting in Community action on either inflation or monetary union will be reached at this time. The French strongly favor pooling of reserves, but remain unwilling to give EC institutions the

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supranational authority necessary to make the pool a part of an effective monetary union. The Germans are equally unwilling to take further steps toward union without vesting the EC with this authority and providing for the necessary harmonization of monetary and fiscal policies. Except for the proposed tariff measures, anti-inflationary policy tools remain vested with the member governments, and monetary and fiscal actions will be taken only when domestic political climates are favorable. As in the past, the French probably will oppose the German recommendation for unilateral external tariff reductions, which they view as prejudicial to the upcoming GATT negotiations.

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BELGIUM-MBFR: Brussels is pressing for a full-scale review this summer of the alliance's negotiating approach to MBFR talks. Belgian officials will urge the North Atlantic Council to consider revamping the procedural system for the talks, which are scheduled to begin on 30 October. They also plan in the near future to present to the Council a paper detailing their views on issues of substance.

These actions stem from Brussels' dissatisfaction with the small role that it played in the MBFR preparatory phase and its underlying fear that the expected reductions of American forces in Europe will have an undesirable impact on national security. Belgian representatives in Vienna felt compelled to break ranks with the other allies on several occasions to dramatize their concern. The difficulty in getting Soviet agreement on a starting date for MBFR was the most recent issue. Belgian officials boycotted two ad hoc group meetings, a development that received front page coverage in the national press.

Although Brussels has expressed its concern about Soviet-American collusion on these matters, its disagreement with Washington on substantive issues is more apparent than real. Discussions between Belgian and American officials on such questions as the relative timing of MBFR and CSCE or on the nature of initial troop reductions have revealed a common viewpoint.

The major factor motivating the Belgians probably is a desire to slow the tempo of the negotiations in order to contain public demands for reductions of national forces. Foreign Ministry officials believe that if they can assume a more visible role at the talks and gain greater influence over the

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formulation of Western negotiating positions, they will be able both to contain domestic pressures and to justify Belgium's participation to skeptical officials in the Defense Ministry and the armed forces. Their proposals for a new procedural basis include measures that would emphasize the use of plenary meetings instead of the four-country emissary system so frequently used during the preparatory talks. Other measures would limit the decision-making ability of the ad hoc group of Western representatives in Vienna, requiring that its work be subjected to frequent review by the respective national governments as well as the North Atlantic Council. Although the major allies prefer the current negotiating system, the Belgian proposals may receive support from some of the smaller allies.



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ICELAND: The government yesterday invoked Article VII of the 1951 defense agreement with the US during a special session of the North Atlantic Council. The provision calls for a NATO review of the continuing need for the base and renegotiation of the agreement within six months. If no accord is reached before the deadline either party could at any time thereafter terminate the defense agreement within 12 months. Meaningful negotiations probably will not be possible, however, until Iceland's fishing dispute with the UK and West Germany is resolved. [REDACTED]

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JAPAN: Tokyo has taken measures to reduce the inflow of gold, partially curtailing the liberalization of gold import restrictions announced in April. Japanese authorities had become alarmed by foreign statements, including some from the US, that Japanese gold imports were contributing to the spectacular increase in the price of gold. Japanese gold dealers have received "guidance" from the Ministry of Finance, the Ministry of International Trade and Industry, and the Bank of Japan on reducing imports. After the restrictions were liberalized in April, importers were granted licenses to import up to 130 metric tons of the metal, or almost double the total imported in 1972. About 80 tons had entered Japan when Tokyo decided to alter its position. [REDACTED]

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YUGOSLAVIA - HUNGARY - EASTERN EUROPE: Janos Kadar's trip to Yugoslavia to see Tito early next month will signal the confidence of the Warsaw Pact "moderates" in the durability of Belgrade's 1971 rapprochement with the USSR. Although Hungarian-Yugoslav state relations have been very good since the late 1960s, the Yugoslavs have been irritated by Kadar's reluctance to return Tito's last visit to Hungary in February 1967. Last month, however, Polish party boss Gierek visited Yugoslavia, thus presumably breaking the ice for the cautious Kadar. Belgrade's relations with the more orthodox parties in East Germany, Czechoslovakia, and Bulgaria, though improving, are still complicated by ideological--and in Bulgaria's case, irredentist--problems.



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